

Desai Electronics Private Limited: Assigned

Facility	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	12.00	SMERA BBB+/Stable (Assigned)

SMERA has assigned long term rating of **SMERA BBB+ (read as SMERA triple B plus)** to the abovementioned bank facility of Desai Electronics Private Limited (DEPL). The outlook is **'Stable'**.

The rating draws support from the experienced management, healthy financial risk profile and robust operating margins of the company. However, the rating is constrained by the muted revenue growth on account of increasing competition and exposure to fluctuations in forex rates. SMERA also takes note of the significant supplier concentration in the company's supply chain and its high dependence on imports for sourcing key input materials.

DEPL is headed by Mr. Vikram Manubhai Desai, (MS - Stanford), Promoter and Managing Director who possesses experience of over three decades in the industry. The rating is supported by the low degree of financial leverage and its robust debt protection metrics. The company's gearing registered a decline to 0.01 times as on 30th June, 2016 against 0.12 times on 31st March, 2016 and 0.27 times as on 31st March, 2015 with repayment of its term loan. Further, the interest coverage ratio also improved from 13.99 times in FY2015 to 17.55 times in FY2016 along with an improvement in the Debt Service Coverage Ratio from five times in FY2015 to 5.92 times in FY2016.

The rating also draws comfort from the healthy operating margins that stood at 28.47 per cent in FY2016 against 31.12 per cent in FY2015 and 25.15 per cent in FY2014. The Profit After Tax (PAT) margin registered an improvement from 11.81 per cent in FY2015 to 13.22 per cent in FY2016 on account of significant decline in gearing. Consequently, the return on capital employed stood at 33.29 per cent for FY2016.

The healthy financial risk profile is evident from the efficient working capital management of the company along with negative bank limit utilisation. SMERA also takes note of the favourable policy environment created by the National Policy on Electronics, 2012. However, concerns with respect to the speedy implementation of the policy continue to persist and are expected to significantly impact the overall business risk profile of the company.

The rating is however constrained by the modest growth in revenues as a result of increase in competition from low cost imports from South and East Asia. Further, with around 60 per cent of raw materials being imported from Korea, the profit margins of the company are exposed to forex fluctuation risk.

Outlook- Stable

SMERA believes that DEPL will maintain a 'Stable' outlook in the medium term on account of healthy debt protection metrics and low gearing. The outlook may be revised to 'Positive' with significant increase in scale of operations along with stable operating margins. Conversely, the outlook may be revised to 'Negative' on account of decline in scale of operations along with deterioration in the profitability indicators.

Rating Sensitivity Factors

- Significant and consistent increase in scale of operations
- Deterioration in the profitability indicators

Criteria applied to arrive at the rating:

- Manufacturing Entities

About the Company

The Pune-based DEPL manufactures plain and metallised – polyester and polypropylene capacitors that are UL Certified and conform to the IEC 384. The manufacturing is situated in Pune with an installed capacity of 200 million capacitors per annum. The company has been a market leader in the plastic film capacitors' segment for over 12 years.

In FY2016 DEPL reported PAT of Rs.8.21 crore against operating income of Rs.62.11 crore as against PAT of Rs.7.21 crore in FY2015 against operating income of Rs.61.00 crore.

Contacts:

Analytical	Business Development
Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.